

City of Detroit

CITY COUNCIL

IRVIN CORLEY, JR.
FISCAL ANALYST
(313) 224-1076

FISCAL ANALYSIS DIVISION
Coleman A. Young Municipal Center
2 Woodward Avenue, Suite 218
Detroit, Michigan 48226
FAX (313) 224-2783
E-Mail: cc-fiscal@ci.detroit.mi.us

ANNE MARIE LANGAN
ASSISTANT FISCAL ANALYST
(313) 224-1078

TO: George Jackson, Jr., President
Detroit Economic Growth Corporation

FROM: Irvin Corley, Jr., Fiscal Analysis Director

DATE: May 10, 2011

RE: 2011-2012 Budget Analysis

24.

Attached is our budget analysis regarding your department's budget for the upcoming 2011-2012 Fiscal Year.

Please be prepared to respond to the issues/questions raised in our analysis during your scheduled hearing. We would then appreciate a written response to the issues/questions by **Friday, May 13, 2011**. Please forward a copy of your responses to the Councilmembers and the City Clerk's Office.

Please contact us if you have any questions regarding our budget analysis.

Thank you for your cooperation in this matter.

ICJ:ss

Attachment

cc: Councilmembers
Council Divisions
Auditor General's Office
Glen Long, DEGC Chief Financial Officer
Thomas Lijana, Finance Director
Floyd Stanley, Deputy Budget Director
Renee Short, Budget Department Team Leader
Denise Gardner, Mayor's Office

**Detroit Economic Growth Corporation/
Economic Development Corporation/
Downtown Development Authority**

FY 2011-2012 Budget Analysis by the Fiscal Analysis Division

Detroit Economic Growth Corporation (DEGC)

The DEGC is a private nonprofit development organization of public, business, labor and community leaders established to assist business in expanding or locating in Detroit. The DEGC provides staff and other administrative services to the Downtown Development Authority (DDA), Local Development Financing Authority (LDFA), the Economic Development Corporation (EDC), and the Detroit Brownfield Redevelopment Authority (DBRA). These development entities do not contain any staff.

The DEGC receives funding primarily from the City of Detroit through its Planning and Development Department (PDD), the DDA, the EDC and corporate contributions. The DDA, LDFA, EDC and DBRA contributions to the DEGC's budget serve as reimbursement to the DEGC for staff services, office space, and operating expenses.

In the proposed 2011-12 budget for PDD, the Mayor recommends contributing from the City \$1,000,000 to the DEGC (see Attachment I). This recommendation generally keeps the City's contribution in line with past budgets. The chart below shows the City's allocations to the DEGC since 2005-06:

City of Detroit's Contribution to the Detroit Economic Growth Corporation from Its Planning and Development Department							Recom- mended FY <u>2011-12</u>
	FY <u>2005-06</u>	FY <u>2006-07</u>	FY <u>2007-08</u>	FY <u>2008-09</u>	FY <u>2009-10</u>	FY <u>2010-11</u>	
Contri- bution							-
Amount	\$500,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000	\$1,000,000

The Council elected to cut the contribution by half to \$500,000 in the 2005-06 budget to help address the \$300 million in soft revenues and questionable expenditures in the Mayor Kilpatrick's proposed 2005-06 budget.

The DEGC feels the one million dollar allocation helps the organization provide citywide proactive business attraction and retention efforts and continue to work with the PDD during pre-development stages on City projects.

Below shows the proposed 2011-2012 budget for the DEGC as compared to the current year's budget.

(1)	(2)
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	DEGC FY 2010- 2011 <u>Budget</u>	DEGC Proposed FY 2011- 2012 <u>Budget</u>	(1)-(2) <u>Difference</u>	Comment <u>Reference Letter</u>
<u>Revenue</u>				
City Contract	\$1,000,000	\$1,000,000	\$0	(A)
EDC Contract	300,000	300,000	-	(B)
EDC Supplement	850,000	850,000	-	(C)
DDA Contract	1,500,000	1,500,000	-	(D)
LDFA Contract	125,000	125,000	-	(E)
DBRA Contract	250,000	250,000	-	(F)
Private Sector	300,000	300,000	-	(G)
Other Contracts	30,000	30,000	-	(H)
Interest Income	30,000	5,000	(25,000)	(I)
Services/Other Fees	35,000	35,000	-	(J)
Budget Deficit	<u>0</u>	<u>0</u>	<u>-</u>	
 Total Revenue	 <u>\$4,420,000</u>	 <u>\$4,395,000</u>	 <u>(\$25,000)</u>	
<u>Expenses</u>				
Personnel	\$3,271,000	\$3,291,000	\$20,000	(K)
Contract Services	131,000	183,000	52,000	(L)
Travel/Meetings/Marketing	237,000	237,000	0	(M)
Rent/Utilities/Insurance	464,500	397,500	(67,000)	(N)
Interest	0	0	0	(O)
Equipment	125,000	125,000	0	(P)
Other	<u>191,500</u>	<u>161,500</u>	<u>(30,000)</u>	(Q)
 Total	 <u>\$4,420,000</u>	 <u>\$4,395,000</u>	 <u>(\$25,000)</u>	

- (A) The Mayor's proposed Planning and Development Department budget maintains the DEGC contribution level at the current year's contribution level.
- (B) Represents EDC's reimbursement to DEGC from City contribution. See next section for more details. The Mayor proposes maintaining the City's EDC contribution at the current year's level.
- (C) EDC supplement is a donation to DEGC's operations from either EDC's line of credit (in most cases), project service fees, and reserves (built up from project/service fees from issuing Industrial Revenue Bonds). This revenue next fiscal year includes project fees for the Casino Development Fund, the Waterfront East Reclamation project, as well as other service fees and loan repayments consistent with the current fiscal year. The project fees are temporary sources of revenue. Attachment II represents EDC's total operating budget for the current fiscal year, and it provides the project fee sources. The EDC board approves this budget. Council approves the City contribution and project fees stemming from contracts your Honorable Body approves between the EDC and the City of Detroit

for a particular project/fund, such as the Casino Business Fund. The EDC supplement remains the same as the current year.

- (D) Represents DDA's reimbursement to DEGC for staff cost and indirect expenses (rent, utilities, supplies, etc.). DDA's contract level the same as the current fiscal year.
- (E) The LDFA budget is based upon tax increment revenues, service fees, City reimbursement, and interest/other income drawn down from the Michigan Economic Development Corporation (MEDC) in prior years. The LDFA contribution remains the same as the current year. See Attachment III for LDFA's current year's budget. Council approved this budget.
- (F) The Environmental Affairs Department has entered into a contract with the DBRA to reimburse the DEGC for DEGC administrative services. See Attachment IV for DBRA's operating budget for the current fiscal year, adopted by the DBRA board.
- (G) Private sector contributions remain the same as the current year.
- (H) The DEGC has entered into contractual agreements to provide administrative services (such as accounting and financial reporting services) for Eastern Market and the former Next Detroit Neighborhood Initiative (this organization will be renamed), both Michigan non-profit corporations.
- (I) The DEGC expects interest income to drop due to the low interest rate environment.
- (J) The DEGC expects to receive this level of service fees from the Detroit Industrial Revolving Loan Fund (DIRLF). The DEGC has received permission from the federal Economic Development Administration (EDA) to utilize this fund for commercial projects as well. Formerly, the EDA Title 9 monies, which support the loan fund, could be used only for industrial projects. The DIRLF can now provide up to \$200,000 in commercial loan funds.

Please note that the remaining explanations relate to expenditures.

- (K) Personnel increase by \$20,000 primarily due to a 20% increase in health insurance rates. The DEGC is operating with 38 employees and 3 consultants, down 3 employees and 1 consultant from its optimal operating structure with no plans to add employees at this time.
- (L) Most of the increase is due to an employee that we will be paid under a professional services contract versus out of salaries in the current year. There is also an increase in communications.
- (M) Same as the current year.

- (N) The DEGC negotiated a decrease in rent for 2011-12 and signed an extension eliminating the potential for a move.
- (O) The DEGC's line of credit is fully exhausted and no interest payment is expected in 2011-12.
- (P) Equipment spending levels are expected to be the same in 2011-12.
- (Q) "Other" includes postage, building maintenance, delivery, supplies, printing, dues, publications & subscriptions, processing fees, special projects, advertising, governmental relations/fund raising and other miscellaneous expenses. The budget decreases since the DEGC will not need to pay for moving expenses since its lease has been extended.

The DEGC is organized so that its employees can be more functionally oriented rather than departmentally oriented. This way, staff can use their skills to work on a broad spectrum of citywide projects rather than on projects related to a specific area, such as commercial development. The DEGC has clarified, however, whom employees report to, thereby, reinstating more accountability.

Attached is DEGC's most recent organizational chart (Attachment V).

Economic Development Corporation (EDC)

The Mayor proposes to keep the City's contribution from PDD's recommended 2011-12 budget to the EDC at the current year's level (see Attachment I). The chart below shows the City's allocations to the EDC since 2004-05:

City of Detroit's Contribution to the Economic Development Corporation from Its Planning and Development Department							Recommended
	FY <u>2005-06</u>	FY <u>2006-07</u>	FY <u>2007-08</u>	FY <u>2008-09</u>	FY <u>2009-10</u>	FY <u>2010-11</u>	FY <u>2011-12</u>
Contribution							
Amount	\$150,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000	\$300,000

Additionally, as indicated earlier, the EDC does traditionally supplement DEGC's budget from EDC's reserves (see EDC's Supplement per DEGC's budget).

Below shows the proposed 2011-2012 budget for the EDC as compared to the current year's budget.

<u>Revenue</u>	<u>EDC FY 2010- 11 Budget</u>	<u>EDC Proposed FY 2011- 12 Budget</u>	<u>PDD's Proposed 2011-12 Allocation</u>	<u>Difference</u>	<u>Comment Reference Letter</u>
City Contract	\$300,000	\$300,000	\$300,000	\$0	(A)
<u>Expenses</u>					
Contractual Services-DEGC	\$275,000	\$275,000		\$0	
Legal/Audit Services-EDC	25,000	25,000		0	
Total	\$300,000	\$300,000		\$0	

(A) Represents EDC's reimbursement to DEGC for DEGC staff time and indirect costs allocated to EDC related activity.

However, again at Attachment II, the current year's operating budget for the EDC describes in more detail other revenues captured by the EDC and what expenditures they pay for.

Downtown Development Authority (DDA)

The DDA, a public corporation for the City of Detroit, was established for the purpose of promoting and developing economic growth in the City of Detroit's downtown business district. The DDA has been authorized to fund its General Fund (operating) budget by an ad valorem tax of one mill on real and tangible personal property not exempt by law in the downtown development district, and by a levy on the increased assessed value of a tax increment district, and the issuance of negotiable revenue and tax increment bonds to finance the development activities of the DDA.

Note: the DDA could receive two mills on real and personal property for operating purposes based on the 2010 Census count results.

Unlike the DEGC and EDC, the DDA **does not** receive a General Fund contribution. Therefore, the DDA feels they do not need to come before Council during any DEGC and EDC budget hearing. The DDA has expressed that they would be willing to address any DDA concerns that Council may have when their operating budget is presented to them in June. Attachment VI represents the current year's operating budget for the DDA City Council approved in July 2010.

Council will recall as well that pursuant to State Public Act No. 197, Council approves the Tax Increment Finance Plan, which delineates the anticipated development projects in the downtown area. Whenever the TIF Plan is amended, the DDA board must first approve the amendments, and then the amendments come before Council for approval. This process additionally gives Council an opportunity to review the DDA's policies, plans, and procedures as they relate to development activity in the downtown area.

Attachment VII represents an excellent chart from the most recent Capital Agenda showing the relationship of the DEGC and related development entities (DDA, EDC, etc.) commonly known as the “alphabet soup”. The Capital Agenda also contains brief descriptions on these development entities with past and pending projects.

Issues and Questions

DEGC

Please provide the most recent accomplishments by the DEGC, including both downtown and neighborhood development projects.

What major new economic projects the DEGC anticipates working on in 2011-12?

What projects is the DEGC working on to increase economic development in the neighborhoods of the City of Detroit?

Does the DEGC anticipate the DDA board approving any modifications to the Tax Increment Financing Plan and Development Plan for Development Area No. 1 soon for Council’s approval?

EDC

Please provide the most recent schedule of the Casino Business Development Fund dollars, showing budget versus actual revenues and expenditures, with balances. If available, please provide an explanation of individual program expenditures to date.

What major industrial projects you have on the horizon?

Does the EDC has the ability to spend any economic stimulus moneys in 2011-12?

BRDA

Please provide the most recent spreadsheet of brownfield redevelopment projects with anticipated investment and job creation levels.

The number of brownfield redevelopment projects in 2011-12 will be restricted due to Governor Snyder’s cuts in the Michigan Business Tax Credit program. Does the BRDA anticipate an even lower number of brownfield projects in the City of Detroit in 2011-12 due to more developers needing the tax increment financing component under the brownfield program since there will be less State assistance available?

LDFA

Is the Local Development Finance Authority generating sufficient tax increment revenues to meet debt service requirements?

DDA

Is the Downtown Development Authority generating sufficient tax increment revenues to meet debt service requirements?

Does the DDA anticipate requesting the Council to approve an operating budget for 2011-12 with property tax revenue based on two mills on real and personal property rather than one due to the results of the 2010 Census count? If so, would the DDA lower its \$1.5 million contribution to the DEGC by the additional amount of taxes received based on the additional mill?

Other

Please provide a copy of the June 30, 2010 audited financial statements for the DEGC and affiliates, EDC, LDFA, DBRA, and the DDA.

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Attachments

CITY OF DETROIT
Planning and Development
Financial Detail by Appropriation and Organization

Community Development Community Development	2010-11 Redbook		2011-12 Dept Final Request		2011-12 Mayor's Budget Rec	
	FTE	AMOUNT	FTE	AMOUNT	FTE	AMOUNT
APPROPRIATION ORGANIZATION						
00014 - Community Development						
360130 - Community Development	0	\$538,000	0	\$492,000	0	\$415,940
APPROPRIATION TOTAL	0	\$538,000	0	\$492,000	0	\$415,940
00595 - Economic Development Corporation						
360134 - Economic Development Corporation	0	\$300,000	0	\$300,000	0	\$300,000
APPROPRIATION TOTAL	0	\$300,000	0	\$300,000	0	\$300,000
00597 - Economic Growth Corporation						
360135 - Economic Growth Corporation	0	\$1,000,000	0	\$1,000,000	0	\$1,000,000
APPROPRIATION TOTAL	0	\$1,000,000	0	\$1,000,000	0	\$1,000,000
05797 - Eight Mile Boulevard BG						
360600 - Eight Mile Boulevard BG	0	\$22,700	0	\$22,700	0	\$22,700
APPROPRIATION TOTAL	0	\$22,700	0	\$22,700	0	\$22,700
05994 - Garfield 108 Loan						
360639 - Garfield 108 Loan	0	\$157,592	0	\$164,428	0	\$164,428
APPROPRIATION TOTAL	0	\$157,592	0	\$164,428	0	\$164,428
10070 - Stuberstone 108 Loan						
360128 - Stuberstone 108 Loan	0	\$38,589	0	\$37,730	0	\$37,730
APPROPRIATION TOTAL	0	\$38,589	0	\$37,730	0	\$37,730
10071 - Demolition Float						
361980 - Demolition Float	0	\$820,474	0	\$1,100,283	0	\$1,100,283
APPROPRIATION TOTAL	0	\$820,474	0	\$1,100,283	0	\$1,100,283
10372 - Ferry Street Inn Section 108						
362722 - Ferry Street Inn Section 108	0	\$209,337	0	\$216,030	0	\$216,030
APPROPRIATION TOTAL	0	\$209,337	0	\$216,030	0	\$216,030
10574 - New Amsterdam						
362612 - New Amsterdam	0	\$828,671	0	\$834,781	0	\$834,781
APPROPRIATION TOTAL	0	\$828,671	0	\$834,781	0	\$834,781

Attachment II

**ECONOMIC DEVELOPMENT CORPORATION OF THE CITY OF
DETROIT
OPERATING BUDGET
JULY 1, 2010 TO JUNE 30, 2011**

**Proposed Budget
June 30, 2011**

REVENUE

City of Detroit	300,000
TSF From Waterfront Reclamation	200,000
TSF From Far East Side	0
TSF From Eastside FEMA	0
TSF From Other Projects	104,000
TSF From Casino Development Fund	350,000
TSF From Trizec Annuity	350,000
Other Revenue & Service Fees	10,000

TOTAL REVENUE	1,314,000
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EXPENSES

Detroit Economic Growth Corp	650,000
Detroit Economic Growth Corp Special Proj	500,000
Other Projects Administrative Fees	104,000
Legal Services	35,000
Audit	25,000
Miscellaneous	20,000

TOTAL EXPENSES	1,334,000
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Operating Surplus/(Shortfall)	(20,000)
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Debt Service	0
(Increase)/Decrease in Reserve	20,000

NET SURPLUS/(SHORTFALL)	0
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**LOCAL DEVELOPMENT FINANCE AUTHORITY
PROGRAM BUDGET
JULY 1, 2010 TO JUNE 30, 2011**

**Proposed Budget
June 30, 2011**

REVENUE

TAX INCREMENT REVENUES RELEASED CURRENT YEAR	150,000
CITY REIMBURSEMENT	25,000
INTEREST/OTHER INCOME	25,000
	<hr/>
TOTAL OPERATING REVENUE	200,000

EXPENSES

DETROIT ECONOMIC GROWTH CORPORATION	125,000
MAINTENANCE/OTHER	75,000
	<hr/>
TOTAL OPERATING EXPENSES	200,000
	<hr/>
Operating Surplus/(Shortfall)	0
(Increase)/Decrease in Reserve	0
	<hr/>
NET SURPLUS/(SHORTFALL)	0
	<hr/> <hr/>

**CITY OF DETROIT BROWNFIELD REDEVELOPMENT AUTHORITY
OPERATING BUDGET
JULY 1, 2010 TO JUNE 30, 2011**

**Proposed Budget
June 30, 2011**

REVENUE

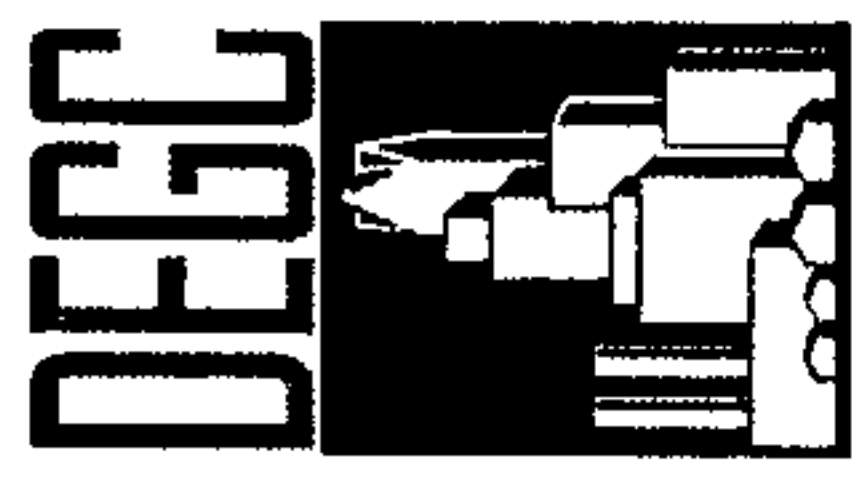
CITY OF DETROIT	150,000
BROWNFIELD APPLICATION / ADMIN. FEES	260,000
INTEREST/OTHER INCOME	1,000
	<hr/>
TOTAL REVENUE	411,000

EXPENSES

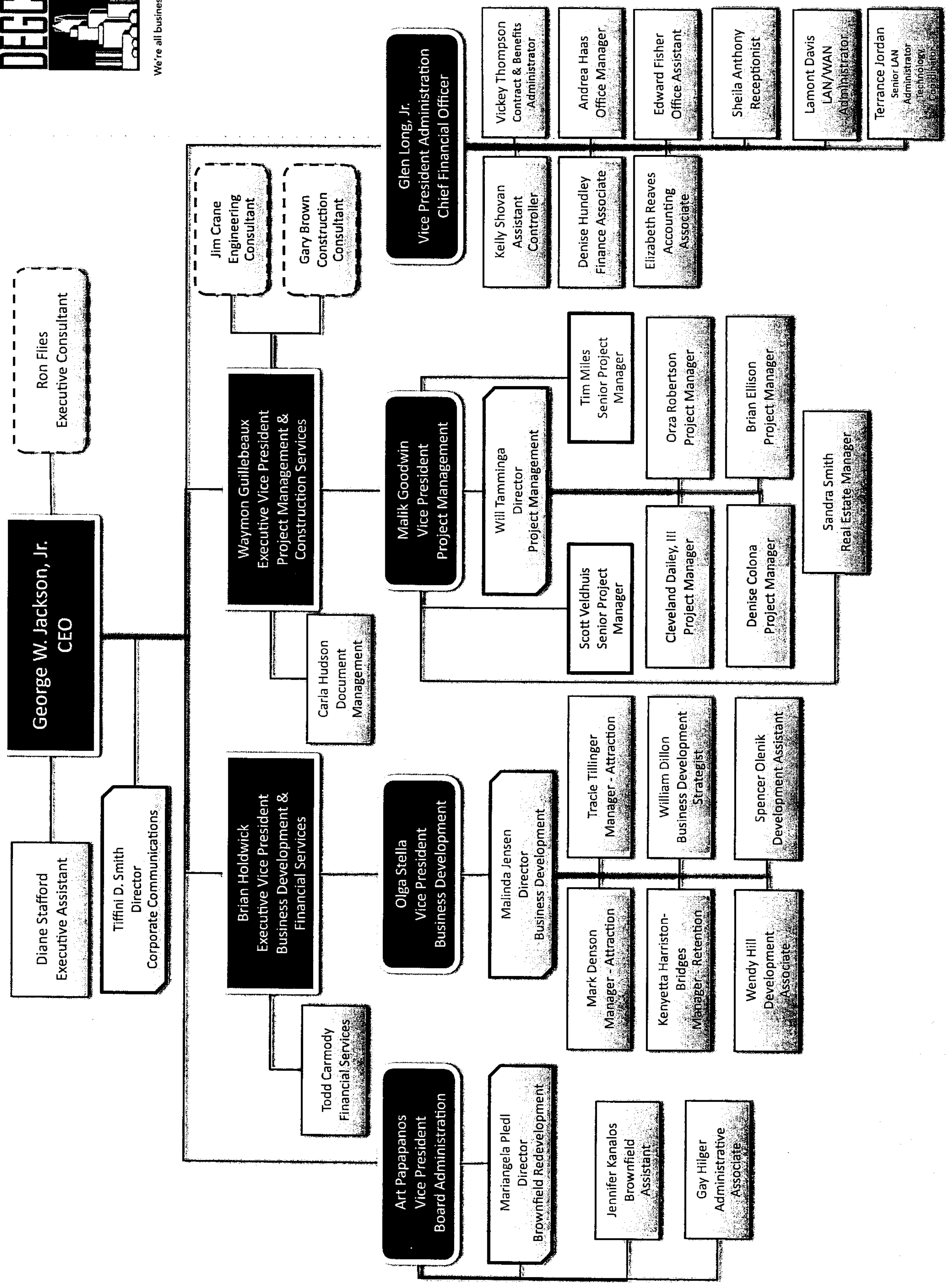
DETROIT ECONOMIC GROWTH CORPORATION	250,000
PUBLIC NOTICES/ADVERTISING	30,000
LEGAL	75,000
AUDIT	11,000
INSURANCE	28,000
WORKSHOPS/PROMOTION	5,000
OTHER EXPENSES	10,000
	<hr/>
TOTAL EXPENSES	409,000

Operating Surplus/(Shortfall)	2,000
(Increase)/Decrease in Reserve	<hr/> (2,000)
NET SURPLUS/(SHORTFALL)	<hr/>0<hr/>

Attachment V



We're all business.



**DOWNTOWN DEVELOPMENT AUTHORITY
BUDGET
2010-2011**

	2010-11 BUDGET
REVENUES:	
Current taxes - one mil	\$ 850,000
Earnings on investments	5,000
Transfer from Tax Increment Fund	500,000
State BusinessTax Refund	70,000
Parking Operations	750,000
Other	5,000
From/(To) prior year balance	<u>290,000</u>
TOTAL REVENUES	<u>\$ 2,470,000</u>
EXPENSES:	
Contractual Services	
Detroit Economic Growth Corp	\$ 1,500,000
Annual Audit	<u>28,000</u>
Sub-Total	\$ 1,528,000
Professional Service Fees	
Legal Services	\$ 135,000
Insurance	240,000
Advertising/Marketing	30,000
Computer Support	<u>10,000</u>
Sub-Total	\$ 415,000
Parking Lots Management	\$ 27,000
Special Projects & Contingencies	<u>\$ 500,000</u>
TOTAL EXPENSES	<u>\$ 2,470,000</u>

CITY OF DETROIT DEVELOPMENT ENTITIES

